Economy News

- GST Council, chaired by Union finance minister and including representatives from 32 states and Union territories as members, will put together the final shape of the indirect tax regime set to kick in from 1 July at its two-day meeting starting today in Srinagar. (Mint)
- The High Court of Tripura has ruled that the Centre cannot collect licence fees on revenue generated from non-telecom activities. According to industry estimates, telecom operators stand to save nearly Rs. 300 bn if the High Court ruling is implemented. (BL)
- The Union Cabinet approved a transparent mechanism for coal allocation and signalled a renewed focus on nuclear power generation. It also approved the addition of 7,000 megawatt (MW) of nuclear capacity that can potentially generate up to Rs700 bn of orders for domestic industry. (Mint)
- The government is moving ahead with further opening of print media, construction and retail sectors to foreign investments, and detailed deliberations in this regard were held in the finance ministry. (ET)

Corporate News

- **Jubilant Life Sciences** said it has received approval from the US health regulator to market amlodipine and olmesartan medoxomil tablets, used to treat hypertension, in the American market. (ET)
- The Delhi Airport Metro Express (DAMEPL), a subsidiary of **Reliance Infrastructure (RInfra),** petitioned Delhi High Court for early payment of the arbitration award of Rs 46.7 bn it has won against Delhi Metro Rail Corporation (DMRC). (BS)
- **Dr Reddy's Laboratories** has received approval from US Food and Drug Administration (US FDA) to launch Doxorubicin Hydrochloride Liposome injection in the US market. (BS)
- The Cabinet Committee on Economic Affairs (CCEA) approved the restructuring of state-run **Hindustan Organic Chemicals Ltd. (HOCL)** after it registered continuous losses since 2011-12. (BL)
- Royal Enfield part of **Eicher Motors**, the motorcycle manufacturer, plans to almost double its exclusive retail presence abroad. The Chennai-based entity has identified Thailand, Indonesia, Colombia and Brazil as having the potential to become very large markets for itself over time. (BS)
- **Infosys** looks to maintain its annual campus hiring plan of 20,000 engineers this year as well. The company is, however, looking at skills in newer areas such as digital and analytics to meet growing demand for these projects from clients. (BS)
- Sebi has initiated adjudication proceedings against credit rating agencies Crisil and CARE ratings over suspension of rating in the case of beleaguered **Amtek Auto**. This is the first time Sebi is taking up the matter against the credit rating agency. (BS)
- Private equity firm Warburg Pincus LLC part-exited **Capital First Ltd** by selling a 25% stake in the non-banking financial company (NBFC) through open market transactions. As part of the transaction, GIC bought a 8.93% stake in Capital First, taking its total shareholding to 13.91%. (Mint)
- **JSW Steel** plans to invest Rs. 192 bn in various brownfield projects to enhance its capacity in line with the national steel policy announced by the government recently. The company plans to double steel-making capacity at Dolvi in Maharashtra to 10 mn tonnes per annum (mtpa). (BL)
- **Dabur** has acquired South African personal care companies D and A cosmetics and Atlanta Body & Health Products. The deal size is estimated at Rs 250 mn. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	17 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	30,659	0.2	4.6	7.7
NIFTY Index	9,526	0.1	4.6	8.0
BANKEX Index	26,084	0.1	5.6	11.3
SPBSITIP Index	10,066	(0.2)	4.3	(1.6)
BSETCG INDEX	18,080	0.2	5.1	18.2
BSEOIL INDEX	14,367	(0.4)	0.7	9.0
CNXMcap Index	18,450	(0.3)	5.4	14.1
SPBSSIP Index	15,681	(0.2)	5.6	16.4
World Indices				
Dow Jones	20,607	(1.8)	0.4	(0.1)
Nasdaq	6,011	(2.6)	2.8	3.0
FTSE	7,503	(0.2)	5.0	2.8
NIKKEI	19,815	(0.5)	6.0	1.5
HANGSENG	25,294	(0.2)	5.4	4.9

Value traded (Rs cr)

	17 May 17	% Chg - Day
Cash BSE	6,541	37.5
Cash NSE	25,764	3.6
Derivatives	442,262	(9.4)

Net inflows (Rs cr)

	16 May 17	% Chg	MTD	YTD
FII	1,044	171	3,748	45,760
Mutual Fund	230	(178)	2,591	23,273

FII open interest (Rs cr)

	16 May 17	% Chg
FII Index Futures	19,159	3.2
FII Index Options	73,812	5.6
FII Stock Futures	74,337	1.6
FII Stock Options	7,562	5.3

Advances / Declines (BSE)

17 May 17	A	B	T	Total	% total
Advances	122	484	72	678	43
Declines	176	622	88	886	56
Unchanged	1	22	7	30	2

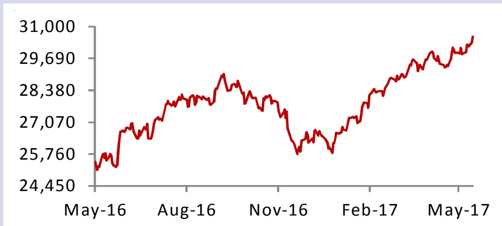
Commodity

	17 May 17	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	48.9	(0.3)	(6.7)	(8.4)
Gold (US$/OZ)	1,256.5	1.6	(2.4)	1.8
Silver (US$/OZ)	16.9	1.0	(7.5)	(6.3)

Debt / forex market

	17 May 17	1 Day	1 Mth	3 Mths
10 yr G-Sec yield (%)	6.7	6.7	6.9	6.9
Re/US$	64.2	64.1	64.5	67.0

Sensex



RESULT UPDATE

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NIIT LTD (NIIT)

PRICE: RS.89 **RECOMMENDATION: BUY**
TARGET PRICE: RS.103 **FY19E P/E: 9.8x**

NIIT's 4Q numbers were better than our expectations, with S&C reporting a 3% YoY rise in revenues and CLS (excluding one-off strategic sourcing revenues) bringing in a 16% YoY CC growth. While S&C has recovered from the demonetization impact, CLS growth is above the guided level of about 13% annual growth, as new projects scale up. Margins improved in S&C business while they were maintained in CLS. New programs like DigiNxt and StackRoute are tracking ahead of expectations. CLS should continue to report consistent growth, going ahead, we believe. NIIT invested Rs.32mn (Rs.24mn in 3Q) in on-line initiatives without any corresponding revenues, impacting overall profitability. We remain optimistic on the future prospects of NIIT. NIIT has launched new programs in S&C business and added new clients in CLS, which should support future growth. We await more clarity on growth prospects and the corresponding profitability in the Skills business as well as the on-line business, though. Our FY19E EPS stands at Rs.9.1 and our DCF-based PT stands revised to Rs.103 (Rs.95 earlier), based on FY19 earnings. We maintain BUY.

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	11,876	12,071	13,283
Growth (%)	17.9	1.6	10.0
EBITDA	760	1,120	1,384
EBITDA margin (%)	6.4	9.3	10.4
PBT	91	579	861
PAT	50	487	706
Sh of pft - NIIT Tech	602	691	805
Net profit	652	1,178	1,511
EPS (Rs)	3.9	7.1	9.1
Growth (%)	(0.1)	80.7	28.3
CEPS (Rs)	6.8	10.1	12.2
BV (Rs/share)	50.7	55.8	62.9
Dividend per share (Rs)	1.8	2.0	2.0
ROE (%)	2.1	16.2	17.7
ROCE (%)	6.9	15.0	17.6
Net cash (debt)	(439)	497	1,409
NW Capital (Days)	10.1	8.2	11.3
P/E (x)	22.6	12.5	9.8
P/BV (x)	1.8	1.6	1.4
EV/Sales (x)	1.3	1.2	1.0
EV/EBITDA (x)	20.0	12.7	9.6

Source: Company, Kotak Securities - Private Client Research

4QFY17 results - better than expectations

(Rs.mn)	4QFY17	3QFY17	QoQ (%)	4QFY16	YoY (%)
Income *	**3615**	**2673**	**35.2**	**2389**	**51.3**
Expenditure	3443	2593		2256	
EBIDTA	**172**	**80**	**115.0**	**133**	**29.3**
Depreciation	109	109		116	
EBIT	**63**	**-29**	**-317.2**	**17**	**270.6**
Interest	0	53		0	
Other Income	-19	12		-14	
PBT	**44**	**-70**	**-162.9**	**3**	**1366.7**
Tax	-8	22		14	
PAT	**52**	**-92**		**-11**	
Share of profit	250	152		169	
Adjusted PAT	**302**	**60**	**403.3**	**158**	**90.7**
E O items	0	0		0	
Shares (mns)	165.5	165.5		165.5	
EPS (Rs)	1.8	0.4		1.0	
EBIDTA (%)	4.8	3.0		5.6	
EBIT (%)	1.7	-1.1		0.7	
Net Profit (%)	1.4	-3.4		-0.5	

*Source : Company; * - 4QFY17 numbers include one-off strategic sourcing deal revenues of Rs.1bn.*

- NIIT's revenues grew by 51% YoY. 4QFY17 revenues included Rs.1bn from a strategic sourcing deal by 2 clients. Excluding these, revenues at Rs.2.62bn grew by 9% YoY, which was above our estimates of Rs.2.46bn.
- The beat was about Rs.30mn each in S&C and CLS businesses and Rs.100mn in SLS business.
- Margins were up about 100bps YoY, excluding the strategic sourcing deal, because of the improvement in S&C and SLS businesses.

S&C reported better growth and a sharp turnaround in margins; demonetization impact is behind

- S&C revenues grew by 4% YoY v/s our expectations of a flattish growth. The company has revived post demonetization, which had impacted 3Q enrolments.
- In 3Q, the business had seen a saw a sharp fall in enrolments with the old-generation courses seeing the most impact. The impact was felt more in the Tier 1 and Tier 2 cities, whereas the metro cities recovered at a fast pace.

New programs to support growth

- NIIT is addressing the slowdown in IT training by re-aligning its S&C business to the changing skill-set requirements of the industry.
- It has introduced several courses on technologies - DigiNxT, StackRoute, etc - which are in demand and this has resulted in a stronger outlook for this business. Growth will be supported by these new courses.
- However, new programs like DigiNxT, StackRoute and continued to see traction during the quarter and reported strong sequential momentum.
- NIIT has trained more than 2500 students in the DigiNxt program already and demand remains strong. It has surpassed company's internal expectations.
- DigiNxT is a program aimed at creating Digital Developers. It entails training on future technologies like Big Data, Robotics, Virtual Reality, Java Enterprise Apps with Dev ops, Artificial Intelligence, Machine Learning, etc.
- DigiNxt has found increasing acceptance within the IT services industry with 2 of the Top 5 Indian IT services companies sourcing students from NIIT. It has been rolled out in more than 75 of the total of 282 centres.
- On the other hand, StackRoute, which is a B2B program, has also witnessed consistent demand.
- StackRoute is a specialised program offering training across various technologies. This is directed at IT companies, which can use this program to re-skill their employees, especially in emerging areas of digital technologies.
- As a part of the 3 month course, students develop products in various areas like Robotics, IoT, Cloud, mobile apps, etc.
- Individual students can learn the full stack of digital technologies and become Digital Innovators, with a view to enter the start-up world and also develop IPs.
- NIIT is now getting inquiries from various universities, which want NIIT to impart Digital skills training to their students, as a part of the curriculum. Several students are also looking at getting trained on digital technologies.
- Banking sector is seeing increased demand for skills and PSU banks, apart from private sector ones, are approaching NIIT for their training needs.
- The Design Training (DT) courses of NIIT are also doing well. Three courses related to Java + Devops, Beanstack and Big Data have already seen 2,917 enrolments in 9mFY17 already.
- NIIT has also introduced new programs with HP and Metascale. While the partnership with HP has led to a new certificate course in Software Testing, NIIT has attacked the Big Data market through its tie-up with Metascale.
- We believe these are high-growth opportunities, with Big Data professionals seeing significant demand in the new Digital world.
- The consistent scale up in these programs gives us comfort. The growth in these courses should help set off the decline in the old-generation programs.

- Niit.tv is an initiative which is offering courses free of charge (as of now) on the net. It is an extension of the cloud-based training being currently offered to NIIT students.
- This initiative has increased visibility for NIIT and will help the company in moving ahead towards its target of skilling 10mn students over the next five years.

Investment of Rs.32mn in on-line initiative - Training.com

- NIIT has invested Rs.32mn (Rs.23mn in 3Q, Rs.15mn in 2Q, Rs.9mn in 1QFY17 and Rs.22mn in 4QFY16) towards its on-line strategy in 4Q, without any major corresponding revenues. This strategy will be driven through its learning portal - Training.com.
- It has listed more than 22 courses on the portal.
- NIIT has tied up with large players like edX and will be offering courses of these partners on the portal.
- The company is focusing on management curriculum currently and that will remain the focus in the near term.
- This business is witnessing a lot of competition from players like Coursera, which have entered India.
- However, NIIT plans to differentiate itself by providing a mix of on-line and classroom assisted experience, which will lead to a higher proportion of courses getting completed by students, as compared to the current averages.
- NIIT plans to continue investing in its on-line initiatives in FY17 and we believe that, the overall investment is expected to be around Rs.70-80mn. The business had a negative EBIDTA of Rs.75mn in FY17 and is expected to have a lower loss in the next fiscal.

CLS revenues (USD terms) grew at 16% QoQ in CC terms

- In reported terms, revenues in the CLS business grew by a strong 90% YoY. However, this was due to a Rs.1bn strategic sourcing transaction (sourcing of training material) by a couple of clients.
- This revenue did not earn any margin and was a pass-through for NIIT.
- Excluding this, CC revenues reported a 16% growth YoY, which was encouraging.
- The traction in CLS continues with new business acquisition in Managed Training Solutions (MTS) business.
- NIIT completed contracting work with two more clients and got 2 extensions. Order confirmations from three clients also came through in the quarter.
- Work on these 5 projects with order confirmations and contract completions has started and there was a one-off transition cost of about Rs.20mn - 30mn during the quarter.
- Of these 5 contracts, the biggest order was from Real Estate Council of Ontario (RECO), which NIIT won in partnership with Humber College, Canada.
- This is likely a Rs.7.5bn order, to be executed over a 5 year period.
- The transition work will continue till mid-2019 and revenues will accrue post that.
- In the meantime, NIIT will have to invest in transition and in 4Q, an amount of $0.25mn was spent on the same.
- The revenue visibility has increased to $249mn as compared to $221mn in 3Q.

- Managed Training Services has continued to be the growth driver for NIIT. Revenues from MTS formed 95% of CLS revenues in 4QFY17 as against 95% in 3Q.
- NIIT is developing into a major player in the MTS business with 34 clients. Most of these are large corporations.
- We believe that, with the developed economies likely stabilizing, the opportunity is huge and demand may pick up over the next few quarters.
- The contribution of CLS to NIIT's EBIDTA was at about 76% in FY14, 128% in FY15 (S&C reported negative EBIDTA), 93% in FY16 and 91% in FY17. It is expected to remain significant at about 79% in FY18 / 76% in FY19.
- Thus, CLS profitability will greatly influence NIIT's margins in the near term. We expect CLS profits to grow strongly in FY18 and FY19.
- NIIT is now turning its focus to the domestic markets and will be offering learning solutions to corporates in India, on a selective basis. This is the fastest growing segment of CLS business.
- It has already won the first MTS contract in India with one of the largest telecom services companies as well a leading mobile handset player. It has also entered into a strategic tie-up with two companies in India.

Revenue break up

(Rs mn)	4QFY17	3QFY17	4QFY16
Skills & Career	751.00	724.00	728.00
Schools	282.00	174.00	301.00
Corporate	2578.00	1774.00	1360.00

Source : Company

SLS (Institutional) business reported 62% QoQ growth

- SLS revenues grew by almost 62% on a QoQ basis to Rs.282mn, as business from non-Government schools rose sharply.
- While private schools business continues to grow, the Government schools business is on a declining trend due to discontinuance of state Government projects. One project from Maharashtra Government was completed in FY17.
- NIIT now has projects from 2 more state Governments, which will get completed in FY18 and FY19.
- The focused IP-led private schools business contributed about 58% of 4Q revenues, v/s 36% in 3Q revenues.
- The business added 392 non-Government schools to take the total number to 3648.
- The company witnessed continuing momentum in IP based orders. N Guru, the company's offering in the private schools business is gaining increasing acceptance, as is reflected in the additional schools bookings.

Details on strategic initiatives for K-12 business awaited

- NIIT has hived off its K-12 learning business (Revenues of about Rs.209mn) into a separate subsidiary named MindChampion Learning Systems Ltd.
- This separate subsidiary will invite strategic partners and chart its own independent growth path.
- We await further details on the same. However, we feel this is an emerging business with significant potential.

Excluding one-offs, margins rose YoY; came in higher than estimates

- Headline margins for the quarter were lower on a YoY basis. However, if we exclude the strategic sourcing revenues as well as the one-time impact of about Rs.40mn in CLS business, margins were up by about 250bps YoY.
- The main contributor was the S&C business where company reported 4% margins as compared to (-)2.6% in 4QFY16.
- CLS saw margins flattish margins YoY. Schools business reported an improvement in margins from 5.3% in 3QFY16 to 10.3% in 4QFY17.

EBIDTA margins (%)

	4QFY17	3QFY17	4QFY16
Skills & Career	4.13	-8.15	-2.61
Schools	10.28	-4.60	5.32
Corporate	5.43	9.58	11.62

Source: Company

Future prospects

- We have our tweaked our FY18 earnings and introduce FY19 estimates.
- We expect the S&C business to report about 5.2% and 6.9% growth in revenues in FY18 and FY19, respectively.
- CLS revenues are expected to rise by 13% each, in FY18 and FY19 (excluding one-offs of FY17).

Revenue break up

Rs mns	FY16	FY17E	FY18E	FY19E
Skills & Career	3326.00	3229.00	3398.28	3632.97
Schools	1064.00	979.00	1092.88	1105.02
Corporate	5679.00	7661.00	7526.02	8467.08
On line	0.00	7.00	54.00	78.00

Source : Company, Kotak Securities - Private Client research

- We have assumed margins to improve to 9.3% in FY18 and 10.4% in FY19.
- The cloud initiative, better capacity utilisation and high-margins courses are expected to help improve the S&C margins to 6.7% in FY19.
- CLS margins are expected to rise to about 12.5% in FY19. Margins should improve due to higher proportion of MTS revenues.
- On the other hand, SLS margins are expected to rise on higher contribution of private schools and lower bought-outs.
- The on-line initiative is expected to negatively impact margins in to a lesser extent, in FY18 and FY19.
- After accounting for its 24% share in NIIT Technologies' profits, we expect the net profit to be at Rs.1.5bn in FY19.

EBIDTA margins (%)

	FY16	FY17E	FY18E	FY19E
Skills & Career	1.5	2.8	5.7	6.7
Schools	2.2	5.4	7.5	7.5
Corporate	11.6	9.0	11.8	12.5
On line	NA	-1071.4	-85.2	0.0

Source : Company, Kotak Securities - Private Client research

Valuations and recommendation

- The recent performance of NIIT inspires optimism. 4Q results have positively surprised us.
- The initiatives taken by the new management have led to consistent improvement in revenue growth and earlier-than-expected benefits on margins.
- We are optimistic about the growth in CLS as well as on the S&C business.
- We await more clarity on growth prospects and the corresponding profitability in the Skills and online businesses.
- We have tweaked our DCF - based TP to Rs.103 v/s Rs.95, to accommodate the changed near-term assumptions.

We maintain BUY on NIIT Ltd with a price target of Rs.103

- At our TP, FY19E earnings will be discounted by 11.3x which, we feel, is reasonable, looking at improved growth prospects and profitability expectations. We maintain **BUY.**

Concerns

- A slower-than-expected recovery in the global economy could impact revenue growth of NIIT.
- Steep rupee appreciation v/s major global currencies may impact the financials of NIIT.

RESULT UPDATE

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HINDUSTAN UNILEVER LTD.

PRICE: RS.1009 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.1100 **FY19E P/E: 36.4X**

HUL has delivered a strong set of financials in 4QFY17. Further, management commentary indicates confidence in improving industry scenario (normalisation following demonetization, and rising consumer confidence). The company's margin has surprised positively, and management comments indicate that the drivers are sustainable. We build in 17% CAGR in FY17-FY19E EPS, and value the stock at 40X FY19E PER, or Rs 1100 (Rs 880 earlier, on roll-forward to FY19, with higher growth projection). We raise our recommendation to ACCUMULATE (REDUCE earlier).

Summary table

(Rs bn)	FY17	FY18E	FY19E
Sales	313.0	345.3	391.5
Growth (%)	2.6	10.3	13.4
EBITDA	60.5	68.1	83.6
EBITDA margin (%)	19.3	19.7	21.4
PBT	61.6	69.7	85.8
Adj. PAT	42.5	48.5	60.1
Adj. EPS (Rs)	19.6	22.4	27.8
Growth (%)	2.0	14.0	24.0
CEPS (Rs)	24.9	25.4	30.9
BV (Rs/share)	30.0	30.6	33.1
Dividend/share (Rs)	17.0	17.0	20.0
ROE (%)	66.6	73.9	87.2
Net cash (debt)	-51.9	-58.8	-67.9
NWC (Days)	-34.8	-34.3	-32.8
P/E (x)	51.4	45.1	36.4
P/BV (x)	33.7	33.0	30.5
EV/Sales (x)	6.8	6.2	5.4
EV/EBITDA (x)	35.3	31.2	25.3

Source: Company, Kotak Securities - Private Client Research

Results Summary

Rs Bn, FY Ends Mar	4QFY17	4QFY16	% chg y/y	3QFY17	% chg q/q
Sales (incl. excise duty)	87.7	81.9	7.1	81.2	8.0
Other Operating Income	1.1	1.4	-16.9	1.9	-41.6
Total Sales from Operations	88.9	83.3	6.7	83.2	6.8
Excise Duty	6.7	6.1	10.7	6.1	10.0
Net Sales (less excise)	82.1	77.2	6.4	77.1	6.6
Raw Material Expenses	40.2	37.7	6.7	37.5	7.3
Gross Profit	**41.9**	**39.5**	**6.0**	**39.6**	**5.9**
Gross Margin (%)	51.0	51.2		51.3	
Employee Expenses	3.9	4.4	-12.4	4.1	-5.2
Advertising and Promotion	8.5	8.7	-1.4	8.9	-3.6
Other Expenses	13.0	11.7	10.8	13.1	-1.0
EBITDA	**16.5**	**14.7**	**12.2**	**13.5**	**22.3**
Margin (%)	20.1	19.1		17.5	
Depreciation and Amortization	1.1	0.9	22.7	1.0	7.8
EBIT	**15.4**	**13.8**	**11.5**	**12.5**	**23.5**
Other Income	0.8	1.0	-17.8	0.8	0.7
Financial Expenses	0.1	0.0	200.0	0.0	31.6
PBT before exceptionals	16.2	14.8	9.2	13.3	22.0
Exceptional Items	0.0	0.5	-102.0	1.5	-100.7
PBT	**16.2**	**15.3**	**5.5**	**14.8**	**9.3**
Provision for Tax	4.4	4.2	3.8	4.5	-2.7
PAT	**11.8**	**11.1**	**6.2**	**10.3**	**14.6**

Source: Company Reports

HUL reported 7% y/y growth in its topline with domestic business growth of 8%, with an underlying volume growth of 4% y/y.

The management noted that volume growth was likely positively impacted, to the extent of 1-1.5 ppt, by re-filling of inventory pipelines during the quarter (following demonetization). Revenue growth was stronger in the urban areas .Reported revenues were ahead of consensus estimates.

Revenue growth was ahead of 7% in most reported segments of the company, excluding foods. In the home care segment, the company reported 7% y/y growth, with strong performance from Surf. In the personal care segment, the company reported 8% y/y growth, with growth across sub-segments, with the exception of oral care. Refreshments registered 10% y/y growth led by tea. Growth in foods was affected by weak growth in Knorr (high base due to relaunch in the base quarter).

Segment Information

(Rs bn)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Segment Revenues					
- Home Care	28.0	25.6	27.8	26.9	30.0
- Personal Care	37.7	39.0	40.3	39.8	40.8
- Foods	2.9	2.7	2.8	2.8	3.0
- Refreshments	11.8	11.9	11.7	11.6	13.0
- Others (includes Exports, Infant					
& Feminine Care Products, etc)	2.9	2.0	2.2	2.0	2.0
Total	83.2	81.1	84.7	83.1	88.8
Segment PBT					
- Home Care	3.0	3.6	2.8	2.3	3.9
- Personal Care	9.2	10.2	9.2	9.2	9.8
- Foods	0.3	0.2	0.1	0.3	0.3
- Refreshments	1.7	1.9	1.7	1.7	2.2
- Others (includes Exports, Infant					
& Feminine Care Products, etc)	-0.2	-0.1	0.1	-0.2	0.0
Total Segment Results	14.5	15.8	14.0	13.4	16.2

Source: Company Reports

In its presentation, the company has noted that market conditions have begun to stabilize, there is an improvement in consumer sentiment, and input cost inflation has begun to stabilize.

Gross margin was flattish in the quarter. Employee expenses registered a 12% y/y decline during the quarter, on account of lower incentive payments, as also since the base contained one-off impact of bonus payments (affected by regulation in the base quarter). Advertising and promotion expenses registered a 1% decline in the quarter - the management highlighted that this is a result of initiatives being taken on improving the efficiency of media campaigns. EBITDA margin expanded 100 bps in the quarter, as a result of cost savings in the employee expenses and A&P lines.

Reported EBITDA came in ahead of consensus estimates. The company reported PAT Rs 11.8 Bn, ahead of consensus estimates.

Segment-wise, there was a notable improvement in margin in the home carte segment, driven by premiumization.

Outlook and Investment View

On the conference call, the management expressed confidence that the company shall continue to deliver modest expansion in EBITDA margin, while staying clear of linking the same directly with the Unilever strategy. The company said that going forward, the company would continue to look to drive efficiencies in media spends, besides "playing every line in the P&L" to drive margins. Segment-wise, the company inidcated that the home care segment may be expected to continue driving expansion in margins (for two reason: weak margins relative to the whole, as also Unilever's strategy of having laundry as one of the pillars of its margin expansion plans).

On GST rollout, the management said that: a/ HUL believes GST is a welcome step forward, b/ there may be transistion challenges for the company, affecting trade pipeline. The management said that it would be useful if clarity on certain issues was obtained in time for the rollout. The company also made it clear that the company's first priority was compliance, and that net benefits (from changes in slabs) would be passed on to the consumer. We believe that while GST rollout may cause some disturbances, the same are likely to be transitory in nature.

The quarter's results provide some comfort in earnings visibility: a/ the company has managed a respectable 4% volume growth, even as wholesale channels continue to see significant pressure, b/ expansion in margins during the quarter, with management providing strong indications that it would be utilizing all drivers to raise margins going forward - the commitment to expansion in margins gathers greater certitude in the backdrop of Unilever's strategy changes, and an identified segment that is believed to be the driver.

Given the above, we believe the consensus view on HUL's earnings is likely to see upward revisions. We project 10%/13% sales growth in FY18/FY19, and bake in 2.1 ppt margin expansion during the period, leading to 17% CAGR in earnings.

We recommend ACCUMULATE on Hindustan Unilever Ltd with a price target of Rs.1100

We value HUL at 40X FY19E PER (versus 35-36X valuations for domestic FMCG companies). We believe that the premium is justified, given: a/ healthy earnings growth with visibility in margin expansion, b/ likelihood of HUL coping better with GST regime than peers, c/ HUL has historically traded at a premium to dometic peers. We arrive at a price target of Rs 1100 (raised from Rs 880 earlier, as we roll-forward to FY19 with strong margin expansion assumptions). Our recommendation is changed to **ACCUMULATE** (REDUCE earlier).

RESULT UPDATE

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MANGALORE REFINERY AND PETROCHEMICALS LTD. (MRPL)

PRICE: RS.135 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.144 **FY19E P/E: 8.2x**

Despite marginal decline in crude throughput, MRPL has posted highest ever quarterly net profit. It has reported a PAT of Rs.19.4 bn in Q4FY17, up 243% qoq and 44% yoy mainly due to strong operating performance, forex gain and significant provision written back (one-off). The company has declared a final dividend of Rs.6/share, resulting in a dividend yield of 4.4%.

Due to shut down of one of the primary unit for 5 days in Q4FY17, the company has reported marginally lower crude throughput of 4.23 mmt, down by 3% yoy and 6.4% qoq. However, MRPL's refining margin stood higher at US$8.25/bbl in Q4FY17 as compared to US$7.43/bbl in Q3FY17 and $8.24/bbl in Q4FY16.

We expect MRPL's financial performance to improve further on account of strong margins in the medium term, improvement in operational performance and ongoing improvement in financial metrics. The expansion of capacity to 15 mmtpa from 11.8 mmtpa and increase in complexity to +9 NCI (from 5.5 earlier) implies that distillate yield (including propylene) will expand, going forward.

Going ahead, we expect MRPL's profitability to improve on account of i). Improved product mix, ii). Better refining margins iii). Economies of scale, iv). Forward integration - Polypropylene plant and v). Various tax benefits. At current price of Rs.135, the stock is trading at 8.2x P/E and 1.9x P/B multiples on FY19E earnings. We introduce FY19E earnings and roll-forward our target prices based on FY19E. We maintain ACCUMULATE recommendation with a revised price target of Rs.144 (earlier Rs.119), valuing it at 5.5x FY19E EV/EBIDTA.

Summary table - consolidated

(Rs mn)	FY17	FY18E	FY19E
Sales	437,548	527,018	540,149
Growth (%)	10	20	2
EBITDA	49,877	60,400	62,583
EBITDA margin (%)	11.4	11.5	11.6
PBT	50,538	41,647	42,839
Net profit	32,932	28,112	28,702
EPS (Rs)	18.8	16.0	16.4
Growth (%)	364	-15	2
CEPS(Rs)	24.4	21.9	22.6
Book value(Rs/share)	54.2	62.1	69.7
DPS (Rs)	6.0	7.0	7.5
ROE (%)	39.6	25.8	23.3
ROCE (%)	19.7	17.3	17.2
Net Cash/(Debt)	(111,158)	(96,961)	(91,070)
NW Capital (days)	8	13	16
P/E (x)	7.2	8.4	8.2
P/BV (x)	2.5	2.2	1.9
EV/Sales (x)	0.79	0.63	0.61
EV/EBITDA (x)	7.0	5.5	5.2

Source: Company, Kotak Securities - Private Client Research

***Note:** In FY17, PBT includes exchange rate variation gain of Rs.16 bn arising out of settlement of overdue trade payables. MRPL could pay for the dues at the exchange rate prevalent at the time of billing and not at the current level.*

Results table (Standalone)

(Rs mn)	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Net Sales/Income from ops	**180,995**	**134,774**	**34**	**15**
Incr/(Decr) in stock	(7,987)	(7,258)		
Total Expenditure	157,558	112,221	40	6
EBIDTA	**15,449**	**15,295**	**1**	**35**
Depreciation	1,703	2,449	(30)	0
EBIT	**13,746**	**12,846**	**7**	**41**
Other income	466	2,475	(81)	(28)
Interest-net	1,219	1,458	(16)	(13)
PBT	**12,993**	**13,864**	**(6)**	**44**
Extra ordinary Exp/(Inc)	(15,973)	77		
Tax	9,542	253.5	3664	184
PAT	**19,424**	**13,534**	**44**	**243**
Equity Capital	17,526	17,526		
EPS (Rs)	**11.1**	**7.7**	**44**	**243**

Source: Company

Key Risk and Concerns:

1). Wide fluctuations in crude, forex and product prices can impact the margins.

2). If global supply exceeds demand then margins can be under pressure.

3). Any delay in executing the project can significantly impact the valuations.

Key developments

Refining margins

Benchmark refining margins have declined meaningfully in Q1FY18 (till date) to US$5.5/bbl, lower by 13% qoq. Softer GRMs are led by weaker Diesel spreads, Jet spreads, Gasoline spreads, and Naphtha spreads. Record exports from China and India are pressuring the margins downwards despite firm demand. We expect summer fuel demand rise can provide some respite to the falling margins, going ahead.

Average product spread with Dubai crude ($/bbls)

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	(till date) QoQ Chg	% chg
INR/USD	67.5	66.9	67.0	67.4	67.0	64.4	(2.6)	(3.9)
Diesel	10.5	10.1	10.7	12.1	12.1	11.5	(0.6)	(4.7)
Jet/SKO	12.6	10.7	10.8	12.2	11.2	10.5	(0.7)	(6.4)
Petrol	13.2	9.5	6.5	10.0	11.2	10.3	(0.9)	(8.3)
Naphtha	16.5	13.3	9.7	13.5	15.1	12.4	(2.7)	(18.0)
FO	(9.3)	(14.3)	(10.8)	(9.1)	(10.1)	(10.2)	(0.2)	(1.5)
Dubai Crude price	30.7	43.0	43.4	47.9	52.8	51.3	(1.5)	(2.8)
Brent crude oil	35.2	47.0	47.0	51.1	54.6	52.4	(2.2)	(4.0)
Singapore GRM	6.5	5.0	4.3	5.5	6.3	5.5	(0.8)	(13.1)
Arab light-heavy	2.7	2.8	2.9	2.9	2.7	2.3	(0.3)	(11.7)
SPOT LNG	4.9	4.5	5.3	7.1	6.8	5.3	(1.5)	(21.9)

Source: Bloomberg

Forex (INR/US$): Average local currency has marginally appreciated to US$ 64.4/bbl (average) in Q1FY18 (till date) from $67/bbl (average) in Q4FY17. This will marginally negative for downstream companies.

New expansion plans in place - Growth is a process: MRPL has set-up the next milestone and is planning to enhance its refining capacity to 25 mmtpa (19% higher than targeted) as against an earlier target of 21 mmtpa and current capacity of 15.5 mmtpa. Additionally, the company is planning to scale up its petrochemical capacity to boost its margins. The Company will invest Rs.110 bn in this expansion. We like the sharpened focus of the company on the growth strategy. The expansion is seen as a major margin driver as it will help the company to process cheaper, heavier crudes into high-value products like diesel, liquefied petroleum gas and propylene.

MRPL is venturing into RLNG business: MRPL has signed a memorandum of understanding (MOU) with new Mangalore Port Trust to study the feasibility of setting up an LNG re-gasification terminal at Mangalore. We believe this is at a preliminary stage and will have a long gestation period. However, if materializes then it will help MRPL to lower its refinery operating cost by replacing costlier liquid fuel with cheaper LNG.

Re-commencing retail outlets - MRPL has drawn up plans for opening over 100 retail outlets which will improve its overall margins due to addition of marketing margins. The company is in the process of obtaining statutory approvals. MRPL has also taken over retail outlet of ONGC set up near the refinery unit and has now become a part of MRPL retail outlet map.

Marketing initiatives: The Company has increased its market presence by way of direct marketing of its products Petcoke, Sulphur and Polypropylene. The company is increasing the product grades of Polypropylene to enhance Polypropylene market share and thereby fetch higher margins.

Auto fuel up-gradation: MRPL is in the process of upgrading its facilities to produce BS-VI grade MS& HSD by April 2020 in-line with the Supreme Court directive and Auto fuel upgradation policy of Govt of India.

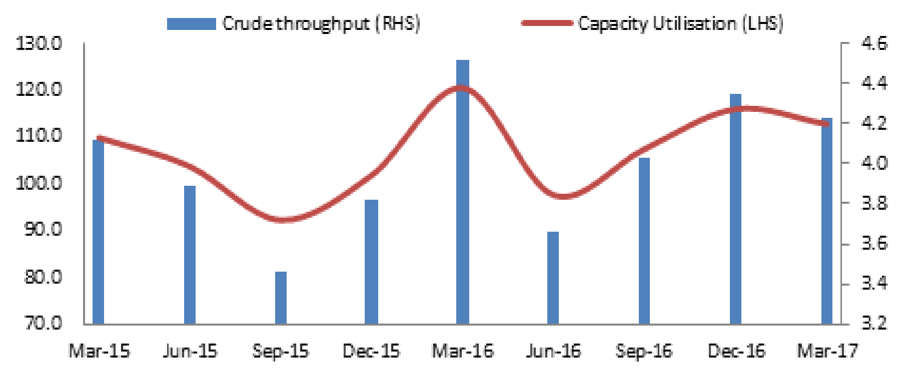
Heavier crude grades will improve margins: In order to improve its refining margins and diversify its crude oil mix, MRPL expects to procure 5 mmtpa of cheaper crude oil from Iran in 2017. Though, currently MRPL is not procuring any crude oil from Venezuela it has already completed registration formalities for the same. We expect the Company to procure Venezuelan crude at an attractive price. Domestically, MRPL is buying 1.2-1.4 mmtpa crude oil from Cairn India's Rajasthan block at a discount to Brent oil.

MRPL Q4FY17 results analysis

Crude throughput:

In Q4FY17, MRPL reported throughput of 4.23 mmt, down by 3% yoy and 6.4% qoq, resulting in lower capacity utilization (113% in Q4FY17 as against 116% in Q3FY17). Crude throughput of 4.23 mmt is marginally lower as against 4.52 MMT in Q4FY16 on account of shut down of one of the primary unit for 5 days in Q4FY17.

Lower crude throughput resulted in lower capacity utilization



Source: Company

Marginal increase in GRMs: MRPL's refining margin stood at US$8.25/bbl in Q4FY17 as compared to US$7.43/bbl in Q3FY17 and $8.24/bbl in Q4FY16.

Net revenue growth - In Q4FY17, MRPL has reported net revenue of Rs.181 bn, higher 34% yoy and 15% qoq mainly on account of higher product prices. The Company has highlighted that the percentage of dispatches for export sales to total sales has decreased on account of more domestic off take.

Raw material cost: In Q4FY17, raw material consumption increased 9% qoq and 62% yoy to Rs.110 bn. In per unit terms, MRPL's crude oil price stands at $53/bbls higher 13% qoq and 75% yoy.

Margin Ratio (%)

	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
EBITDA Margin	8.5	11.3	(2.8)	1.3
EBIT Margin	7.6	9.5	(1.9)	1.4
Adj PAT Margin	1.9	10.1	(8.2)	(1.7)
Other Income/PBT	3.6	17.9	(14.3)	(3.6)
Tax/PBT	73.4	1.8	71.6	36.2

Source: Company

Expenses

(Rs mn)	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Raw Material consumption	110,380	68,114	62	9
Staff costs	1,418	884	60	96
Forex Loss/(Gain)	(3,050)	143	(2237)	(291)
Other Exp.	1,074	1,154	(7)	(63)
Excise Duty	47,737	41,926	14	12
Total	157,558	112,221	40	6

Source: Company

Expenses Ratio

	Q4FY17	Q4FY16	YoY (%)	QoQ (%)
Employee to Sales	0.8	0.7	0.1	0.4
RM to VOP	63.8	53.4	10.4	0.8
Forex Loss to VOP	(1.8)	0.1	(1.9)	(2.8)
Mfg exp. To Sales	0.6	0.9	(0.3)	(1.2)
Excise duty to Sales	27.6	32.9	(5.3)	1.0

Source: Company

Staff Cost: In Q4FY17, employee cost increased 96% qoq to Rs.1.42 bn (+60% yoy). Broadly, MRPL's staff cost is within control.

Forex Gain: In Q4FY17, MRPL has booked forex gain of Rs.3.1 bn as against a forex loss of Rs.1.6 bn in Q3FY17 and a forex loss of Rs.143 mn in Q4FY16 mainly due to forex volatility.

Other expenditure: In Q4FY17, MRPL's adjusted other expenditure decreased meaningfully 63% qoq to Rs.1.07 bn (-7% yoy).

Operating profit - In Q4FY17, MRPL's reported operating profit has increased 35% qoq (base effect) to Rs.15.45 bn (1% yoy) on account of higher revenues and lower forex gain.

Depreciation cost: MRPL reported flattish depreciation charge at Rs.1.7 bn in Q4FY17, 0.9% qoq but down 30% yoy.

Finance cost: MRPL's interest cost has decreased to Rs.1.22 bn, down 13% qoq (base effect) and 16% yoy. Gross debt as on 31st March'17 stands at Rs.132.6 bn.

Other income: MRPL's other income stands at Rs.466 mn in Q4FY17, decreased 28% qoq and 81% yoy mainly on account of lower interest income as company has utilized cash to partly pay off creditors.

Profit before tax (PBT): In Q4FY17, MRPL's PBT increased significantly 44% qoq to Rs.13 bn (-6% yoy). Meaningful increase in PBT is mainly due to better operating performance and lower interest cost.

Extra ordinary Income: MRPL has booked an exceptional income of Rs.15.97 bn on account of exchange rate variation gain arising out of settlement of trade payables. In other words, MRPL has written back provisions related to payment due to Iran for crude oil purchases. In FY17, MRPL has cleared Iran's crude oil dues of $2.5 Bn.

Bottom line: MRPL has posted highest ever profit in Q4FY17. The Company has reported a net profit of Rs.19.4 bn in Q4FY17, significantly higher by 243% qoq and 44% yoy (base effect) mainly due to strong operating performance and provision written back.

OVERALL INVESTMENT SUMMARY

Valuations & Recommendations:

We expect MRPL's financial performance to improve further on account of strong margins in the medium term, improvement in operational performance in the medium term and ongoing improvement in financial metrics. The expansion of capacity to 15 mmtpa from 11.8 mmtpa and increase in complexity to +9 NCI (from 5.5 earlier) implies that distillate yield (including propylene) will expand, going forward.

We maintain ACCUMULATE on Mangalore Refinery and Petrochemicals Ltd with a price target of Rs.144

Going ahead, we expect MRPL's profitability to improve on account of i). Improved product mix, ii). Better refining margins iii). Economies of scale, iv). Forward integration - Polypropylene plant and v). Various tax benefits. At current price of Rs.135, the stock is trading at 8.2x P/E and 1.9x P/B multiples on FY19E earnings. We introduce FY19E earnings and roll-forward our target prices based on FY19E. We maintain **ACCUMULATE** recommendation with a revised price target of Rs.144 (earlier Rs.119), valuing it at 5.5x FY19E EV/EBIDTA.

Company back ground

Mangalore Refinery and Petrochemicals Ltd. (Mini-Ratna status) is a pure play crude oil refiner with strong promoter backing of ONGC (India's biggest government owned exploration Company). MRPL has transformed itself into a large and complex refinery with phase-III capacity expansion and has emerged into a much stronger player in the industry.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
17-May	ATHCON	Lalit Ramakant Salunkhe	S	1,05,000	18.8
17-May	BOSTONTEK	Saurabh Jain	S	1,97,450	13.8
17-May	BOSTONTEK	Pattammal N. Murlidharan	B	1,98,000	13.8
17-May	CAPF	Cloverdell Investment Limited	S	2,43,00,000	727.4
17-May	CAPF	Hdfc Standard Life Insurance Co Ltd	B	5,00,000	724.9
17-May	CAPF	Morgan Stanley (France) S.A.S	B	8,40,000	727.1
17-May	CAPF	Govt Of Singapore Invt Corpn Pte Ltd A/C C Account	B	87,01,476	725.0
17-May	CAPF	Natwest Bank Plc As Trustee Of The Jupiter India Fund	B	6,10,008	730.1
17-May	CAPF	Hdfc Mutual Fund Mid - Cap Opportunities Fund	B	15,22,608	726.5
17-May	CAPF	Tntbc As The Trustee Of Nomura India Stock Mother Fund	B	7,00,000	727.1
17-May	CHORDIA	Wallfort Financial Services Ltd	S	22,909	131.0
17-May	CHORDIA	Darshan Trading Company	B	19,989	131.0
17-May	EMERALD	Narinder Kumar Bansal	S	27,900	44.8
17-May	GANGAPA	Sab Computing Private Limited	S	3,00,000	10.5
17-May	GANGAPA	Ras Polytex Private Limited	S	2,00,000	10.5
17-May	GANGAPA	Amit Chaudhary	B	4,98,000	10.5
17-May	GINISILK	Onward Network Technologies	B	31,800	415.8
17-May	GOLDCOINHF	Narendra Patel	S	16,004	13.8
17-May	GOLDCOINHF	Bij Buildcon (India) Private Limited	B	28,135	13.8
17-May	IFL	Vikram Sharma	S	30,000	11.1
17-May	IFL	Msb E Trade Securities Limited	B	24,000	11.1
17-May	LOKESHMACH	Vijaya Lakshmi Bollineni	S	1,19,638	101.7
17-May	MNIL	Mani Enterprise	S	30,000	98.0
17-May	MNIL	Shree Suprinit Tradinvest Pvt Ltd	B	30,000	98.0
17-May	RADHEY	Swapnil Kashinath Kawli	S	42,550	11.4
17-May	RADHEY	Atulkumar Shantilal Shah	S	31,820	11.4
17-May	RADHEY	Amarjit Yadav	S	44,200	11.4
17-May	RADHEY	Sameer Jayantilal Kamani	B	35,300	11.4
17-May	RADHEY	Jiteshbhai Chandrakantbhai Kotak	B	20,000	11.4
17-May	RADHEY	Atul Bhimji Gohil	B	20,000	11.4
17-May	RADHEY	Paras Vinodrai Shah	B	40,000	11.4
17-May	RAFL	Priety Kurele	B	60,000	50.2
17-May	RAFL	Achintya Securities Pvt. Ltd.	S	62,500	50.2
17-May	RCSL	Sykes And Ray Equities (India) Ltd	B	1,00,000	33.3
17-May	SHREEPAC	Abdul Kadar Hamid Makani	B	21,800	9.9
17-May	SHREEPAC	Nidhi Equity Private Limited	S	25,000	9.9
17-May	TATAMTRDVR	Rakesh Radheyshyam Jhunjhunwala	S	50,00,000	266.5
17-May	TGBHOTELS	Apurva International	S	1,70,000	71.7
17-May	WISEC	Bij Buildcon (India) Private Limited	B	51,201	4.9

Source: Bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Tata Steel Ltd	494	8.2	NA	49.4
Bharti Infra	390	3.6	NA	2.3
Indiabulls H	1,082	2.7	NA	1.8
Losers				
Tech Mahindra	431	(2.9)	NA	1.8
ACC Ltd	1,694	(2.1)	NA	0.4
Bosch Ltd	24,191	(2.0)	NA	0.02

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
18 May	Bajaj Auto, Cummins India, GDL, HMVL, Muthoot Finance, Pidilite Industries earnings expected
19 May	Grasim Industries, HT Media, Motherson Sumi Systems, Tata Power, VRL Logistics, earnings expected
22 May	Allcargo Logistics, Engineers India Ltd earnings expected

Source: www.Bseindia.com

RATING SCALE

Definitions of ratings

BUY – We expect the stock to deliver more than 12% returns over the next 9 months

ACCUMULATE – We expect the stock to deliver 5% - 12% returns over the next 9 months

REDUCE – We expect the stock to deliver 0% - 5% returns over the next 9 months

SELL – We expect the stock to deliver negative returns over the next 9 months

NR – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.

RS – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA – **Not Available or Not Applicable.** The information is not available for display or is not applicable

NM – **Not Meaningful.** The information is not meaningful and is therefore excluded.

NOTE – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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